ANNUAL REPORT for the year ended December 31st, 1969

THE ALGOMA STEEL CORPORATION, LIMITED

1969

Overall view of the Steelworks with the new 160″ Plate Mill in the left centre

THE ALGOMA STEEL CORPORATION, LIMITED

STATISTICAL SUPPLEMENT TO 1969 ANNUAL REPORT

SIGNIFICANT STATISTICS IN THE SIXTIES

COMPOSITION OF CONSOLIDATED SALES

	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
	%	%	%	%	%	%	%	%	%	%
Steel Products	88	91	90	91	89	88	85	81	78	75
Pig Iron	6	5	6	6	8	8	11	12	13	14
Sinter	1	1	1	1	1	1	1	3	4	5
Coke, coal chemicals and sundry	5	3	3	2	2	3	3	4	5	6
	100	100	100	100	100	100	100	100	100	100

The proportion of sales represented by steel products declined in 1969 because shipments of these products were affected to the greatest extent by the enforced shutdown at the Steelworks Division. Sales of surplus coal increased.

GEOGRAPHICAL DISTRIBUTION OF CONSOLIDATED SALES

	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
	%	%	%	%	%	%	%	%	%	%
Eastern Canada	13	12	13	15	14	13	12	13	10	10
Ontario	62	56	56	59	59	58	53	51	52	54
Western Canada	10	12	14	11	12	14	13	12	11	9
United States	15	20	17	15	15	15	22	23	21	20
Off-shore								1	6	7
	100	100	100	100	100	100	100	100	100	100

Sustained strong demand in the Ontario market in 1969 resulted in a decrease in exports to the United States.

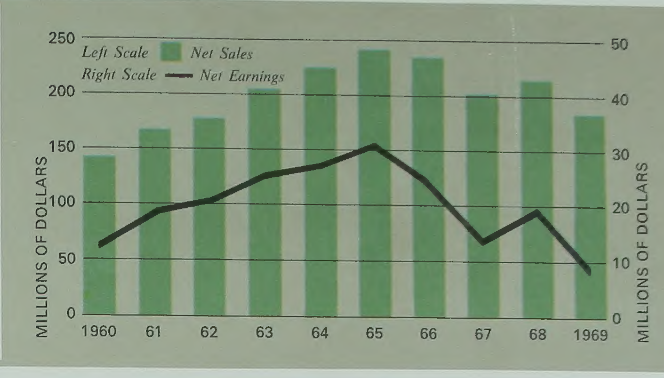
STEEL SHIPMENTS BY PRODUCT CLASSIFICATION

	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
	%	%	%	%	%	%	%	%	%	%
Flat rolled	49	49	48	48	51	51	49	44	46	49
Heavy structurals including wide flange beams	23	21	21	21	19	21	20	21	13	10
Rails and fastenings	8	5	7	7	5	7	7	6	6	9
Bars and light structurals	6	6	7	6	5	5	5	6	6	7
Semi-finished including tube rounds	14	19	17	18	20	16	19	23	29	25
	100	100	100	100	100	100	100	100	100	100

The proportion of shipments represented by heavy structurals and rails and fastenings increased in 1969 and the proportion represented by semi-finished products was lower.

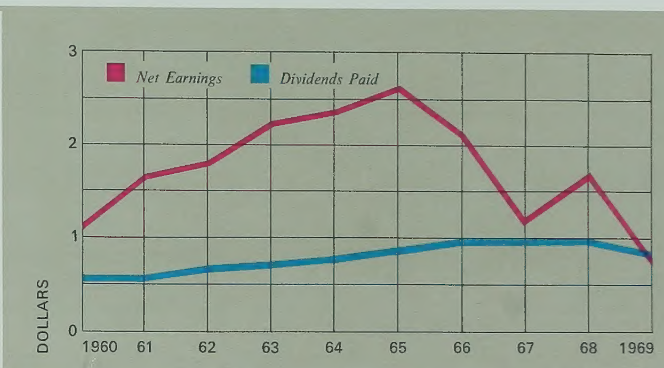
NET SALES AND NET EARNINGS

Sales and earnings were severely impaired in 1969 by the enforced shutdown of operations at the Steelworks and Algoma Ore Divisions.



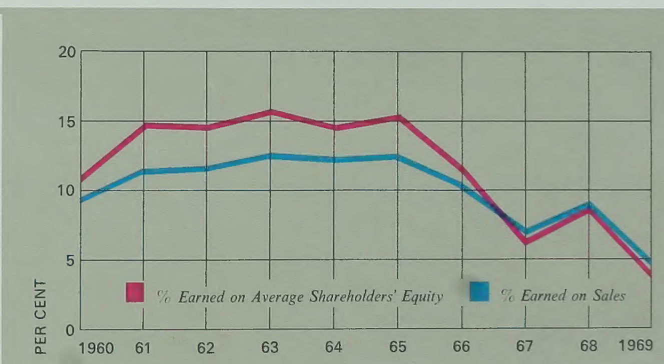
NET EARNINGS AND DIVIDENDS PER SHARE OF COMMON STOCK

The dividend paid in the last quarter of 1969 was reduced to 12½ cents per share as a result of the reduction in cash flow caused by the shutdown and the necessity of conserving funds for expansion purposes.



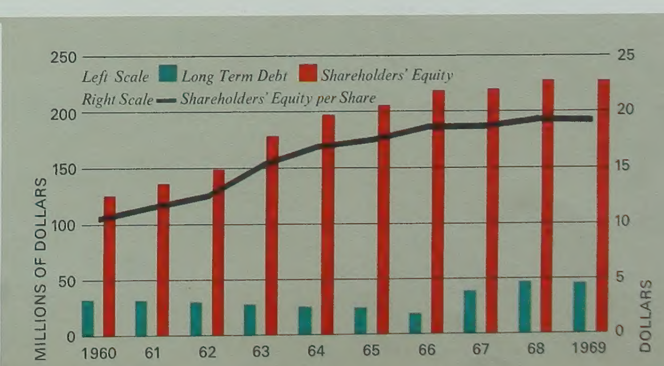
PER CENT EARNED ON AVERAGE SHAREHOLDERS' EQUITY AND ON SALES

The returns on average shareholders' equity and on sales showed sharp declines in 1969.



LONG TERM DEBT AND SHAREHOLDERS' EQUITY

Shareholders' equity decreased to $19.55 per share in 1969. Long term debt at the end of the year amounted to $47 million and represented 17 per cent of invested capital.



TEAR OUT HERE

INDEX

Les personnes qui désirent recevoir ce rapport annuel en français peuvent se le procurer en écrivant au Secrétaire de The Algoma Steel Corporation, Limited, Sault Ste-Marie, Ontario.

McIntyre

DIRECTORS

John B. Barber *Vice President - Finance, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
John D. Barrington *Mining Consultant and company director*	Toronto, Ontario
*Sir Philip Dunn, Bart. *Financier and company director*	London, England
*Ross Dunn, Q.C. *Partner, McMillan, Binch, Berry, Dunn, Corrigan & Howland, Barristers and Solicitors*	Toronto, Ontario
*David S. Holbrook *Chairman and President, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
Gilbert W. Humphrey *Chairman, The Hanna Mining Company*	Cleveland, Ohio, U.S.A.
Douglas Joyce *Vice President - Operations, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
*T. R. McLagan, O.B.E. *Chairman, Canada Steamship Lines, Limited*	Montreal, Quebec
W. Earle McLaughlin *Chairman and President, The Royal Bank of Canada*	Montreal, Quebec
MacKenzie McMurray *President, Dominion Bridge Company, Limited*	Montreal, Quebec
*M. C. G. Meighen, O.B.E. *President, Canadian General Investments Limited*	Toronto, Ontario
Dr. Egon Overbeck *President, Board of Management, Mannesmann, A.G.*	Dusseldorf, West Germany
Dr. Ulrich Petersen *Member, Board of Management, Mannesmann, A.G.*	Dusseldorf, West Germany
*Dr. G. Wagner *North American Representative of Mannesmann, A.G.*	New York, N.Y., U.S.A.

*Member of Executive Committee

HONORARY DIRECTORS

Hon. T. A. Crerar *Retired Senator*	Victoria, British Columbia
Henry S. Hamilton, Q.C. *Barrister*	Sault Ste. Marie, Ontario
E. Gordon McMillan, Q.C. *Partner, McMillan, Binch, Berry, Dunn, Corrigan & Howland, Barristers and Solicitors*	Toronto, Ontario
Dr. Wilhelm Zangen *Honorary Chairman, Supervisory Board, Mannesmann, A.G.*	Dusseldorf, West Germany

OFFICERS

David S. Holbrook	Chairman and President
John B. Barber	Vice President - Finance
Douglas Joyce	Vice President - Operations
Donald A. Machum	Vice President - Administration
C. Carson Weeks	Vice President - Sales
David M. Farrell	Secretary
C. E. McLurg	Treasurer
Ross H. Cutmore	Comptroller

HIGHLIGHTS OF 1969

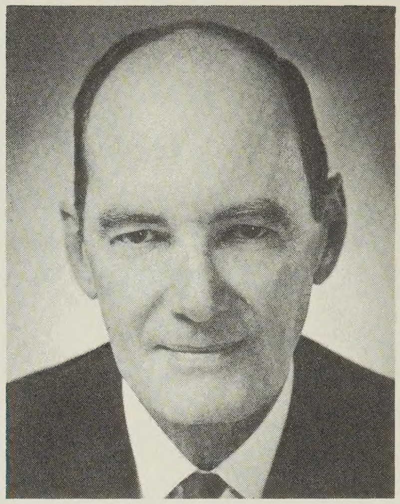
(with comparative figures for 1968)

	1969	1968	INCREASE OR (DECREASE)
	(dollars and tons in thousands)		
Net sales	$183,063	$216,215	$(33,152)
Net earnings — total	$ 9,173	$ 19,756	$(10,583)
— per share	$ .79	$ 1.70	$ (.91)
— per cent of income	4.9%	9.0%	(4.1%)
— per cent of average shareholders' equity	4.0%	8.8%	(4.8%)
Cost of products sold as per cent of net sales	87.7%	80.6%	7.1%
Dividends paid — total	$ 10,157	$ 11,608	$ (1,451)
— per share	$ .875	$ 1.00	$ (.125)
Capital and mine development expenditures	$ 40,446	$ 23,190	$ 17,256
Depreciation and amortization	$ 17,532	$ 18,636	$ (1,104)
Long term debt at year end	$ 46,970	$ 47,116	$ (146)
Production — iron	N.T. 1,705	2,189	(484)
— raw steel	N.T. 1,725	2,261	(536)
Shipments — steel products	N.T. 1,243	1,549	(306)
Approximate number of shareholders at year end	16,362	14,796	1,566

The Annual Meeting of Shareholders will be held at the Windsor Hotel, Sault Ste. Marie, Ontario, Thursday, April 16th, 1970 at 2:15 p.m. Eastern Standard Time. A formal notice of the Meeting and a proxy form are included with this Report.

PRESIDENT'S LETTER

TO THE SHAREHOLDERS:



Chairman and President
David S. Holbrook

Through the first seven months of 1969 the Canadian steel industry was headed for a record production year, then labour negotiations caused prolonged shutdowns of the plants of Algoma and a second major Canadian steel producer. As a result, Canadian raw steel production at 10.1 million tons was 8.7 per cent less than the 11.1 million ton record set in 1968.

The Corporation's sales and net earnings were higher to the end of June than in the same period in 1968. However, operations were impaired to such an extent in the last half of the year that both sales and earnings for the whole year declined sharply.

Manufacture of equipment for the 160″ Plate Mill continued but on-site construction and installation was halted by the shutdown. Work is again underway but it is now expected that this mill will not be in operation before the second quarter of 1971. A decision has not been reached yet with respect to resumption of work on the remaining major units in the Steelworks expansion program.

b.o.x.

Algoma will make a submission to the Federal Government on the White Paper on Tax Reform and will continue efforts to persuade the Province of Ontario to exempt production machinery and equipment from sales tax. The steel industry cannot absorb body blows, such as the imposition of sales tax on production machinery and equipment by the Province in April 1969 and the proposed reduction in tax incentives to mining in the White Paper, and be expected to continue to grow and be a mainstay to the Canadian economy.

Management is convinced that implementation of many of the proposals in the White Paper would be detrimental to the growth of the Corporation and of the Canadian economy. Mining is one of the only major producing industries in Canada in which productivity is equal to or better than in the United States and yet it is proposed to reduce the tax incentives to mining; this would make the development of low-grade iron ore deposits uneconomical and retard expansion of the steel industry and regional development. Two of the most serious Canadian problems are the control of inflation and the assurance of availability of increasing amounts of capital for the expansion of industry but several of the proposals, including one for imposition of a heavy tax on capital gains, would stimulate consumer spending and impair the accumulation of capital for investment purposes.

Although there has been some reduction recently in activity in the automotive industry, Canadian demand for steel products is generally strong and it is expected that operations will be at close to capacity levels through the first half of this year.

Regular meetings of the Board of Directors were held – four in Montreal, four in Toronto and two in Sault Ste. Marie.

It is again a pleasure to express appreciation to employees of the Corporation who have made genuine efforts on its behalf.

D. S. Holbrook

D. S. Holbrook
Chairman and President

Sault Ste. Marie, Ontario
February 4th, 1970.

REVIEW OF 1969 OPERATIONS

Financial

Sales at $183.1 million were 15.3 per cent lower than in 1968 and earnings declined 53.6 per cent to $9.2 million. Per share earnings and cash flow were seventy-nine cents and $1.67 respectively, compared to $1.70 and $3.09 in 1968. These unsatisfactory results in 1969 are directly attributable to the shutdown of the Steelworks and Algoma Ore Divisions for slightly over three months.

Although dividend income continued at about the same level and interest rates were higher, cash was depleted by the shutdown and by capital expenditures and income from investments was $694 thousand lower than in 1968.

The increase in operating costs as a per cent of sales resulted from lower volume, labour unrest before the shutdown, substantial expense which resulted from the shutdown, steadily increasing costs of employment, materials, utilities, services and municipal and provincial taxes.

The cost of rearranging plant declined but administrative and selling expenses increased primarily because of the incidence of Ontario's tax on paid-up capital.

Interest and expense on long term debt was higher reflecting a full year's interest on series C debentures.

Depreciation and amortization was lower because of a change in the method of accruing the former which was approved by your auditors and is explained on page 16 in Note 2 to the financial statements. The costs of mine development and equipment used to mine ore were amortized at rates intended to write them off over estimated recoverable reserves and the costs of other fixed assets were amortized at rates based on their expected useful lives.

The income tax credit resulted mainly from tax exemption of income from the leased mine at Steep Rock Lake and depletion claimed for income tax purposes.

The three-year tax exempt period for the leased mine will expire in September 1970 and it has still not been determined whether income from the Ruth and Lucy Mine will qualify for three-year tax exemption from the start of production in 1968.

Dividends of twenty-five cents per share were paid in each of the first three quarters of the year and in the fourth quarter, the rate was reduced to 12.5 cents per share because cash flow was impaired by the shutdown and it was considered advisable to conserve funds for working capital and expansion purposes. The Department of National Revenue has advised that Canadian shareholders of the Corporation will qualify for deduction of 20 per cent depletion allowance for income tax purposes on 1969 dividends.

Working capital decreased $21.8 million to $48.5 million at the end of the year when the ratio of current assets to current liabilities was 2.2 to 1. Accounts receivable were $9.2 million lower than at the end of 1968 because shipments in the last two months of 1969 were not back to a normal level. There was little change in the total value of inventories but their composition was different as a result of the shutdown, with lower tonnages

of finished products and higher quantities of raw materials.

To conserve working capital, only $146 thousand of series A debentures were purchased but sufficient debentures are on hand to satisfy this year's and $30 thousand of next year's sinking fund requirements.

The method of accounting for past service pension costs was changed with approval of your auditors as explained on page 16 in Note 6 to the financial statements.

There was no change in the number of issued and outstanding shares and the total number of shareholders increased about 11 per cent to 16,362.

The usual Statistical Supplement is bound in the front of this Report but is detachable and the comparison of financial and operating results on pages 18 and 19 has been restricted to 11 years to improve readability.

Sales

Shipments of steel products at 1.2 million tons were low as a result of the shutdown and the major portion of the decline was in export shipments which were approximately 54 per cent lower at 151 thousand tons; off-shore shipments were again negligible. Demand for steel products was strong throughout the year and, although there is little possibility of recovering business lost because of the shutdown, estimated at over 300 thousand tons of steel products, orders on hand at the end of the year represented more than double the backlog at the start of the year.

Sales of pig iron increased slightly with higher shipments into the Canadian market where there were more settled labour conditions at customers' plants. Sales of Algoma Sinter were again entirely to customers in the United States and amounted to 112 thousand gross tons.

Base prices of rolled steel products were increased and there were minor revisions in freight allowances and extras; in some cases the increases represented the first for a number of years. The price realized for steel products sold rose from $126.98 per ton in 1968 to $129.39 in 1969.

Algoma cooperated in a study by the Federal Prices and Incomes Commission of price and cost increases in the Canadian steel industry but the Commission's Report has not been released at the date of printing this Report. The industry has acted with great restraint on prices and in the last 10 years the percentage increase in the average price of Algoma's steel products, including increases to the end of 1969, has been less than one-sixth of the percentage increase in the hourly cost of labour.

The Algoma Central and Canadian Pacific railways conducted tests on performance in their operations of high-chrome rails produced by Algoma and preliminary results indicate that these rails have greatly improved resistance to wear compared to carbon steel rails now in use.

The Federal Government unexpectedly implemented all Kennedy Round tariff reductions effective June 4th, 1969 although it had been planned to institute them in three stages on January 1st, 1970, 1971 and 1972. Algoma has not yet experienced any ill effects from this because there has been a world steel shortage; however, the effects may well be felt when additional off-shore steel producing capacity becomes operational in a few months. Canadian steel is only afforded an average of 8 to 10 per cent duty protection which is not sufficient when steel is sold in Canada by off-shore producers at low marginal prices and on extended payment terms.

The tonnage of steel products imported into Canada increased sharply, largely as a result of the shutdown in the Canadian industry, but because of the high level of demand the dumping and injury provisions in the new International Dumping Code were not tested by the Corporation.

Further progress was made on the program for better control of processing steel for customers' orders. Computer-based systems for booking orders, providing steel, and producing instructions for mills were installed for many flat rolled products. A scheduling and tracking system was implemented in the Wide Hot Strip Finishing Department and a similar system is being installed in the Cold Rolled Strip Department. Completion of each step in this program improves the reliability of deliveries to customers.

Operations

Production in 1969 and 1968 was:

		1969	1968
		(thousands of tons)	
Algoma Sinter	G.T.	1,142	1,723
Coal	N.T.	2,301	2,253
Coke	N.T.	1,226	1,523
Iron	N.T.	1,705	2,189
Raw steel	N.T.	1,725	2,261

The effect of the three-month shutdown of the Steelworks and Algoma Ore Divisions is apparent from the declines in production at those Divisions.

Ore from properties owned and leased was again the major source of iron and almost 92 per cent of the ore charged into the blast furnaces was from these properties. Use of an increased proportion of iron pellets and injection of natural gas into the furnaces improved output and reduced coke rates.

As in 1968, about 60 per cent of the raw steel was produced in the L-D oxygen steel plant and the remainder in the open hearth furnaces.

The tonnage of shaped sections and slabs produced on the two strand continuous casting machine which began operating in 1968 increased and trials are underway on casting blooms on the four strand machine for rolling into rounds to be used by a major customer for the production of seamless tubes.

Further steps were taken to improve the quality of air and water discharged from operations by the establishment of an Environmental Control Group and development of a long term control program under which expenditures could amount to approximately $20 million through the mid-1970's. These expenditures will not produce any earnings and, in fact, there will be a net cost involved in the operation of the equipment. The Corporation and other Canadian companies are pressing the Federal Government to institute an incentive for expenditures for the control of air quality similar to the rapid write-off applicable to facilities for the control of water quality.

At the Algoma Ore Division, 1.7 million tons of ore were extracted from the George W. MacLeod underground mine and 296 thousand tons from the Ruth and Lucy open pit mine; almost 94 per cent of the Sinter produced from this ore was used in the Corporation's blast furnaces.

Although production was interrupted a number of times at Cannelton Coal Company, total output increased to 2.3 million tons. An underground high volatile coal mine from which small tonnages were being mined was closed as it had become uneconomical to operate and another is almost mined out and will be closed early this year. Coal from new mines either in production or being developed will replace the tonnages from the closed mines.

Improvements, Additions and Alterations

Capital and mine development expenditures in 1969 were $40 million and major projects completed at the Steelworks Division included:

Conversion of coke oven gas cleaning equipment to a more efficient type

Installation of distribution lines and pressure reducing stations for the use of natural gas in four blast furnaces and a boiler

Major repairs and redesign of a larger blast furnace (No. 6)

Reline of a smaller blast furnace (No. 3), installation of new stockhouse bins and reinforcement of the highline

Improvements to the structure in the Open Hearth Shop

Extension of the structural finishing building to add approximately 24 thousand square feet of storage area and installation of additional handling facilities

Extension of the building for the 160″ Plate Mill and relocation of equipment to facilitate work on the mill; this included relocation of two lines for finishing plate, installation of new

equipment for flame cutting steel and installation of 1,750 feet of new tables to service the relocated finishing equipment

Installation of two new machines and rebuilding and relocation of three machines to produce grinding balls

Installation of two stamping lines for the manufacture of unfinished automotive parts

Installation of settling basins at the end of the sewer system to clean water discharged into the St. Mary's River

The manufacture of a large blast furnace turbo blower was completed at the supplier's plant.

The following projects were either underway at the Steelworks at the end of the year or are expected to be started in 1970:

Installation of equipment to remove tar and gums from coke oven gas to purify it for use as fuel

Installation of equipment for cleaning gas discharged from the Sinter Plant

Reline of a larger blast furnace (No. 5) and replacement of equipment to permit operating at higher temperatures; the stockhouse bins will be replaced and the highline reinforced

Construction of a new ingot mould yard to permit increased production of higher grade steels

Installation of new handling equipment in the Open Hearth Shop

Installation of improved cooling equipment on the 106″ Wide Hot Strip Mill

Extension of the building and installation of additional equipment for finishing wide hot rolled strip and sheet

Relocation of a coil conveyor in the 106″ Wide Hot Strip Mill to facilitate installation of foundations for the 160″ Plate Mill

Replacement of tables on the 44″ Blooming Mill

Extension of the structural finishing building and installation of additional handling facilities

Installation on the Bloom and Plate Mill of a machine for removal of surface imperfections from slabs

Installation on the Bloom and Plate Mill of a higher pressure hydraulic system for removal of surface scale

Improvements to the ventilating and heating system in the Ingot Mould Foundry

Construction of a railway car repair shop to replace a shop destroyed by fire

Alterations to buildings which will be part of the 160″ Plate Mill complex, manufacture of mill equipment and installation of equipment foundations

Continued installation of water mains, sewers and electric power distribution facilities under the expansion program

Expenditures at the Algoma Ore Division were principally on mine development and at Cannelton Coal Company on equipment for the new mines; there were no major expenditures at the Canadian Furnace Division.

In 1970, coke crushing equipment at the Algoma Ore Division will be renovated and a coke crusher from the Steelworks will be installed.

Employee, Community and Public Relations

Agreements with bargaining units which represent employees in Algoma's Canadian operations expired at the end of July but remained in force because negotiations had not been completed. Unfortunately, on August 1st there was a demonstration at the Steelworks' gates which resulted in the closing of the Works and subsequently in the shutting down of the Algoma Ore Division, although operations were continued without interruption at the Canadian Furnace Division.

Ultimate settlement with all but one of the bargaining units was reached November 5th after a shutdown of 96 days which was the longest in the modern history of Algoma. The settlement was comparable to that reached by another large

Ontario steel producer after a strike of similar duration.

The United Transportation Union, representing 200 railway employees at the Steelworks Division, continued its strike but this did not disrupt operations. Agreement was reached with this union on February 14th, 1970 on terms similar to those accepted by the other union locals.

The package of wages and benefits was the most expensive settlement in the history of the Canadian steel industry. Average wages will increase 93.9 cents per hour over the three-year term of the agreement – more than thirty cents per hour each year. A cost of living allowance of a maximum of three cents per hour is provided for in the second and third years and improvements in vacations become effective in 1971. The maximum basic monthly pension increases from $200 to $230 after 40 years service, without any contribution by employees, and there are improvements in welfare benefits and shift premiums and an increase of one cent per hour in payments by the Corporation into the fund to provide benefits for employees laid off during reduced operations. By 1972, wages and benefits for the average hourly rated production and maintenance employee will be among the highest in Canada.

Cannelton Coal Company was involved in four shutdowns by association – one for thirteen days, two for four days each and one for two days. Two were attempts to influence government policy in the United States on health and safety legislation, one was a memorial to the late John L. Lewis and one was in sympathy for miners in disputes at other mines in the area.

Although the foregoing naturally dominates a review of 1969, there were other interesting developments:

Employee education and training programs were continued and a number of employees completed evening courses and received degrees from Lake Superior State College in Sault Ste. Marie, Michigan. The company continued to encourage the development of employees and of Algoma and Cambrian Colleges in Sault Ste. Marie, Ontario by arranging extra courses. Supervisory and management training courses at the Steelworks were revised to include instruction based on the latest findings, especially with respect to employee motivation

Through more frequent publication of a full page of pictures and stories about the Corporation and employees in the Sault Daily Star, employees and communities were kept better informed about the Corporation

Safer working conditions and work habits were revealed by a reduction in the number and seriousness of accidents in relation to hours worked; the frequency of accidents dropped 9 per cent and accident severity declined 24 per cent at the Steelworks Division

Outlook

It is generally predicted that there will be slowdowns in the growth of real production and prices, higher unemployment and declining business profits in Canada this year with a "cooling down" of the economy. However, strike-depleted steel inventories and a heavy backlog in the construction industry should result in a continuation of strong Canadian demand for steel products. Consumption of finished steel products will probably continue the growth which was interrupted in 1969 by labour problems at Algoma and the plants of a second major Canadian steel producer, and reach a record level of approximately 8.7 million tons.

Longer range forecasts are for consumption of rolling mill products to reach about 12 million tons in Canada by 1975. The extent to which the Canadian steel industry may participate in this growth could be strongly influenced by three events – the labour settlement in the steel industry, inflation and the study by the Federal Prices and Incomes Commission, and the Federal White Paper on Tax Reform.

The labour settlement will raise steelmaking costs in Canada because increases in output per man hour are not expected to offset the large cost increases involved. There will thus be a reduction in the advantage Canadian steel producers have had over producers in the United States and an increase in the advantages Japanese and European steel producers have over Canadian producers.

Steps must be taken by Governments to control the alarming inflationary trend in Canada but it should be recognized that the prices charged by the Canadian steel industry are already subject to stringent control imposed by competition from low-cost off-shore producers. If the Canadian industry is to participate to the extent it should in supplying indicated growth in steel consumption, it must either be free of government controls, or if product price controls become unavoidable, the price of labour equally must be controlled.

The Federal White Paper on Tax Reform contains sweeping proposals which are inter-related and complex and the primary objective appears to be redistribution of wealth rather than promotion of growth in the economy which would increase Federal revenues and improve the well-being of all Canadians.

Proposals to reduce tax incentives to companies engaged in mining are a serious threat to the steel industry since almost all the remaining known Canadian iron ore deposits which are accessible are low-grade and many of them could not be economically developed without higher incentives than those proposed. Ore from such deposits has become part of the basic strength of the Canadian steel industry.

The steel industry is a major factor in the Canadian economy and the opportunity exists for it to expand and make an increasing contribution to the economy. This will only be possible if employees and the unions which represent them realize that steadily increasing output per hour worked is essential and if governments at all levels realize that the industry should not be undermined by implementing legislation based to a large extent on theoretical and social considerations which will further increase the industry's vulnerability to foreign competition.

Submitted on behalf of the Board of Directors

D. S. HOLBROOK
CHAIRMAN and PRESIDENT

CONSOLIDATED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1969 AND 1968

		1969	1968
INCOME	Net sales	$183,063,181	$216,215,196
	Investments	3,136,801	3,830,319
		186,199,982	220,045,515
EXPENSES	Cost of products sold	160,468,233	174,276,370
	Rearranging plant	102,322	689,169
	Administrative and selling	5,608,795	5,164,639
	Interest and expense on long term debt	3,087,074	2,979,801
	Depreciation and amortization (Note 2)	17,532,369	18,636,344
		186,798,793	201,746,323
EARNINGS	(Loss) Before Income Taxes	(598,811)	18,299,192
INCOME TAXES	Current (Note 3)	(2,143,000)	2,264,000
	Deferred (Note 3)	(7,629,000)	(3,721,000)
		(9,772,000)	(1,457,000)
NET EARNINGS		$ 9,173,189	$ 19,756,192

CONSOLIDATED RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1969 AND 1968

	1969	1968
Balance at beginning of year	$216,940,411	$208,792,653
Net earnings	9,173,189	19,756,192
	226,113,600	228,548,845
Dividends paid	10,157,379	11,608,434
Balance at end of year	$215,956,221	$216,940,411

See Notes to Consolidated Financial Statements on Page 16

Subject to the accompanying Auditors' Report dated January 15, 1970

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1969 AND 1968

		1969	1968
FUNDS WERE PROVIDED BY	Cash flow from earnings		
	Net earnings	$ 9,173,189	$19,756,192
	Transactions not resulting in an outlay of funds:		
	Depreciation and amortization	17,532,369	18,636,344
	Income tax applicable to future years	(7,629,000)	(3,721,000)
	Excess of accruals over expenditures on operating reserves and amortization of past service pension cost	300,347	1,309,476
		19,376,905	35,981,012
	Investments reserved for expansion at end of previous year	10,000,000	10,000,000
	Sale of series C debentures	—	9,275,000
	Refundable 5% Corporation Tax	—	777,961
	Other – net	200,683	244,709
		29,577,588	56,278,682
FUNDS WERE APPLIED TO	Plant and equipment additions	39,475,484	21,822,575
	Mine development	970,770	1,367,893
		40,446,254	23,190,468
	Purchase of series A debentures	146,000	1,884,000
	Reduction of accrued past service pension cost	638,358	675,235
	Payment of dividends	10,157,379	11,608,434
	Investments reserved for expansion	—	10,000,000
		51,387,991	47,358,137
WORKING CAPITAL	Increase (decrease) during year	(21,810,403)	8,920,545
	At end of year	$48,549,052	$70,359,455

See Notes to Consolidated Financial Statements on Page 16

Subject to the accompanying Auditors' Report dated January 15, 1970

CONSOLIDATED

AS AT DECEMBE

ASSETS	1969	1968
CURRENT		
Cash	$ —	$ 1,469,255
Marketable investments at cost which approximates market	2,015,290	16,968,959
Less – reserved (see below)	—	10,000,000
	2,015,290	6,968,959
Accounts receivable	25,923,884	35,125,595
Income and refundable taxes recoverable	2,233,036	2,765,139
Inventories (Note 4)	57,082,981	57,368,119
Prepaid expenses	1,899,380	1,744,419
Total current assets	89,154,571	105,441,486
NON-CURRENT ACCOUNTS AND NOTES RECEIVABLE	735,210	747,254
INVESTMENTS AT COST		
Marketable	30,297,282	30,297,979
(market value 1969 $34,351,522 – 1968 $39,905,196)		
Other	212,955	172,456
	30,510,237	30,470,435
MARKETABLE INVESTMENTS RESERVED FOR CONSTRUCTION AND EXPANSION	—	10,000,000
FIXED ASSETS		
Property, plant and equipment at cost (Note 5)	466,728,702	429,040,374
Mine development at cost	14,697,394	14,087,490
	481,426,096	443,127,864
Accumulated depreciation, depletion and amortization (Note 2)	220,049,331	204,136,170
	261,376,765	238,991,694
DEFERRED CHARGE		
Unamortized past service pension cost (Note 6)	—	9,878,976
	$381,776,783	$395,529,845

See Notes to Consolidated Financial Statements on page 16

Approved on behalf of the Board

D. S. HOLBROOK Director

W. E. McLAUGHLIN Director

LIMITED AND SUBSIDIARIES

BALANCE SHEET

, 1969 AND 1968

LIABILITIES	1969	1968
CURRENT		
Cheques outstanding less cash on deposit	$ 2,767,978	$ —
Accounts payable and accrued liabilities	35,916,521	31,398,341
Income and other taxes payable	1,921,020	3,683,690
Total current liabilities	40,605,519	35,082,031
LONG TERM DEBT – SECURED (Note 7)		
5¼% series A sinking fund debentures	16,970,000	17,116,000
7⅜% series C sinking fund debentures	30,000,000	30,000,000
	46,970,000	47,116,000
ACCRUED PAST SERVICE PENSION COST (Note 6)	20,921,298	20,734,658
DEFERRED INCOME TAXES (Notes 3 and 6)	46,388,000	64,721,000
SHAREHOLDERS EQUITY (Note 8)		
Capital stock		
Authorized – 30,199,760 shares of no par value		
Issued – 11,608,434 shares	10,935,745	10,935,745
Retained earnings	215,956,221	216,940,411
	226,891,966	227,876,156
	$381,776,783	$395,529,845

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Algoma Steel Corporation, Limited and subsidiaries as of December 31, 1969 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles which, except for the changes with which we concur in the basis of recording depreciation and of stating accrued past service pension cost as described in notes 2 and 6 to the financial statements, were applied on a basis consistent with that of the preceding year.

Sault Ste. Marie, Ontario
January 15, 1970.

"PEAT, MARWICK, MITCHELL & CO."
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1969

(1) PRINCIPLES OF CONSOLIDATION

The financial statements include the accounts of all subsidiary companies. The minority interest of a non-operating subsidiary is not significant and is included in current liabilities in the balance sheet. Assets and liabilities of the United States subsidiary are included in the financial statements at par of exchange; if these were converted to Canadian dollar equivalent there would not be any substantial effect on the financial position.

(2) DEPRECIATION

The practice of accruing depreciation on major facility installations from the time construction started has been discontinued and in 1969 depreciation is based on the time such facilities became operational. This change increased 1969 net earnings by $1.1 million.

(3) INCOME TAXES

The $7,629,000 deferred income tax credit in the earnings statement results principally from recording a greater amount of depreciation in the books than the amount to be claimed for tax purposes. This amount is deducted from Deferred Income Taxes in the balance sheet which are applicable to future periods when amounts claimed for depreciation for tax purposes may be less than amounts recorded in the accounts.

Dividend income from Canadian corporations and depletion are claimed as reductions of income for tax purposes. In addition, certain income is exempt from tax for thirty-six months commencing October 1, 1967. Without such reductions and exemption, taxes would have increased approximately $9.8 million in 1969 as compared with $11.7 million in 1968.

(4) INVENTORIES

Finished products and work in process are valued at the lower of cost or net realizable value, and raw materials and supplies are valued at the lower of cost or replacement cost. Inventories at December 31, 1969 and 1968 are:

	1969	1968
Finished products . . .	$ 8,938,314	$11,284,842
Work in process	11,707,763	11,380,382
Raw materials and supplies	36,436,904	34,702,895
	$57,082,981	$57,368,119

(5) PROPERTY, PLANT AND EQUIPMENT

Commitments of approximately $22 million are outstanding at December 31, 1969 on a major expansion program.

(6) PENSIONS

The unfunded amount for pensions earned by past service under employees' pension plans is estimated at $40.4 million by an independent actuary and $24.2 million has been accrued in the accounts to December 31, 1969, of which $3.3 million is included in current liabilities in the balance sheet. Payments as determined by the actuary to cover current and past service requirements are made each year into trust funds established under the plans. The payments are designed to fund the amount for pensions earned by past service by 1989 and the portion not accrued in the accounts to date will be charged to operations in approximately equal annual amounts to 1989.

During the year the basis on which the Accrued Past Service Pension Cost was stated has been changed. Unamortized Past Service Pension Cost has been applied against the accrual. The balance of the accrual has been increased from an after-tax to a before-tax basis and Deferred Income Taxes have been reduced accordingly. Neither of these changes had any effect on earnings in the current or prior years.

(7) LONG TERM DEBT

Series A debentures are secured by a Trust Deed under which a sinking fund must be provided to redeem $1 million principal amount in each of the years 1970 to 1977 inclusive. Debentures become due May 15, 1978 and all or any part may be redeemed at any time. At December 31, 1969 debentures of $1 million are redeemed in advance of sinking fund requirements and are available to meet such future requirements.

Series C debentures rank pari passu with series A debentures and are secured by a Supplemental Trust Deed under which a sinking fund must be provided to redeem $1.2 million principal amount in each of the years 1972 to 1986 inclusive. Debentures become due October 1, 1987 and all or any part may be redeemed at any time.

(8) SHAREHOLDERS' EQUITY

As long as series A debentures are outstanding the Corporation must meet certain financial requirements before paying dividends or reducing share capital. These requirements are exceeded by a substantial amount.

During 1969 options were granted under the stock option plan for certain employees to purchase 26,000 shares at a price of $15.19 per share not exercisable until 1970. In addition, the price per share for options on 69,750 shares terminating in 1974 was reduced from $29.60 and $29.70 to $15.19. At December 31, 1969 there are unexercised options on 2,000 shares at $15.10 per share terminating in 1971, on 69,750 shares at $15.19 per share terminating in 1974 and on 26,00 shares at $15.19 per share terminating in 1979.

(9) REMUNERATION

Total remuneration of directors and senior officers amounted to $534,730.

(10) LAWSUITS

The Corporation is defendant in two lawsuits commenced prior to January 1, 1969 involving substantial amounts. In the opinion of the Corporation's General Legal Counsel, there is no basis for any of the claims made by the Plaintiff against the Corporation in either suit. In August 1969 another action was commenced against the Corporation but the amount claimed and the exact nature of the claim have not as yet been specified by the Plaintiffs. In the opinion of the Corporation's General Legal Counsel, the result of this action will not have any material effect on the financial position of the Corporation.

EXECUTIVE OFFICES	Sault Ste. Marie, Ontario
WORKS AND OPERATIONS	The Algoma Steel Corporation, Limited Steelworks Division, Sault Ste. Marie, Ontario Canadian Furnace Division, Port Colborne, Ontario Algoma Ore Division, Michipicoten District, Ontario Cannelton Coal Company Kanawha Division, Cannelton, West Virginia Pocahontas Division, Superior, West Virginia

THE ALGOMA STEEL CORPORATION, LIMITED

INCORPORATION	Under the laws of the Province of Ontario
SHARE TRANSFER AGENTS AND REGISTRARS	Montreal Trust Company, Saint John, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver The Royal Bank of Canada Trust Company, New York
TRUSTEE FOR DEBENTURES	Montreal Trust Company, Toronto, Ontario
REGISTRAR FOR DEBENTURES	Montreal Trust Company, Montreal, Toronto, Winnipeg and Vancouver

COMPARISON OF FINANCIAL AND

SUMMARY OF OPERATIONS AND NET EARNINGS (thousands of tons and millions of dollars)

Year	Production: Coal net tons	Production: Algoma Sinter gross tons	Production: Iron net tons	Production: Raw steel net tons	Shipments of steel products net tons	Income $	Cost of products sold $	Rearranging plant $	Administrative and selling $	Interest & expense on long term debt $	Depreciation and amortization $	Income taxes $	Net earnings $
1969	2301	1142	1705	1725	1243	186.2	160.5	.1	5.6	3.1	17.5	(9.8)	9.2
1968	2253	1723	2189	2261	1549	220.0	174.3	.7	5.1	3.0	18.6	(1.5)	19.8
1967	1841	1562	1957	2073	1451	203.6	159.0	.2	5.6	1.5	17.6	4.5	14.2
1966	1685	1805	2241	2347	1715	239.0	174.5	.8	5.7	1.2	16.5	15.5	24.8
1965	1674	1822	2289	2486	1768	244.4	169.4	.1	4.8	1.3	15.1	22.9	30.8
1964	1591	1781	2261	2301	1670	226.8	157.5	.7	4.6	1.4	14.5	20.5	27.6
1963	1672	1618	2077	2092	1520	205.8	141.7	.5	4.3	1.5	13.1	18.8	25.9
1962	1443	1460	1772	1759	1297	180.2	127.4	.7	3.7	1.5	11.6	14.2	21.1
1961	1443	1631	1732	1650	1228	169.7	123.4	.8	3.4	1.6	10.5	10.5	19.5
1960	1443	1707	1427	1278	949	143.3	105.5	.9	3.2	1.6	10.0	8.8	13.3
1959	1457	1838	1552	1372	1045	164.5	116.5	.5	3.2	1.7	10.8	14.2	17.6

SOURCE AND APPLICATION OF FUNDS (millions of dollars)

Year	Source: Net earnings $	Source: Depreciation and amortization $	Source: Deferred taxes on income $	Source: Sale of investments $	Source: Long term debt $	Source: Other — net $	Application: Fixed assets $	Application: Investments reserved for expansion $	Application: Reduction of debt $	Application: Dividends $	Application: Investments $	Application: Refundable 5% tax $	Increase in working capital $
1969	9.2	17.5	(7.6)			9.8	40.4		.1	10.2			(21.8)
1968	19.8	18.6	(3.7)		9.3	10.9	23.2	10.0	1.9	11.6		(.8)	9.0
1967	14.2	17.6	5.3		20.7	6.7	39.0	10.0		11.6		(.8)	4.7
1966	24.8	16.5	6.5			15.2	33.5	10.0	4.8	11.6	1.5	1.6	
1965	30.8	15.1	9.1			.6	25.2	15.0	3.1	10.4			1.9
1964	27.6	14.5	11.6			16.3	37.5		1.7	9.3	27.5		(6.0)
1963	25.9	13.1	5.7	16.1		9.4	31.5	15.0	1.8	8.7			13.2
1962	21.1	11.6	4.6			11.3	33.2	9.0	1.3	8.1			(3.0)
1961	19.5	10.5	3.4			2.0	18.0	10.0	.7	7.0			(.3)
1960	13.3	10.0	3.1			14.8	26.4		1.4	7.0			6.4
1959	17.6	10.8	1.7			.9	13.8	14.0	2.1	5.8			(4.7)

1967 net earnings are after an extraordinary charge of $1.0 million.
"Other—net" appearing in source of funds includes investments reserved for expansion at end of previous year.

PERATING RESULTS 1969 - 1959

STATISTICS RELATING TO EARNINGS (millions of dollars excepting per share data)

Year	Cash dividends $	Net earnings retained in business $	Cash flow from earnings $	Per share: Net earnings $	Per share: Cash dividends $	Per share: Cash flow $	Cost of products sold as % of net sales %	Income taxes as % of income %	Net earnings as % of: Income %	Net earnings as % of: Average shareholders' equity %	Net earnings as % of: Average invested capital %
1969	10.2	(1.0)	19.4	.79	.875	1.67	87.7	(5.2)	4.9	4.0	3.9
1968	11.6	8.2	35.9	1.70	1.00	3.09	80.6	(.7)	9.0	8.8	8.0
1967	11.6	2.6	35.1	1.22	1.00	3.03	79.3	2.2	7.0	6.5	6.0
1966	11.6	13.2	48.0	2.14	1.00	4.13	74.1	6.5	10.4	11.7	10.9
1965	10.4	20.4	55.6	2.66	.90	4.80	70.0	9.4	12.6	15.3	13.9
1964	9.3	18.3	55.0	2.38	.80	4.74	70.0	9.0	12.2	14.7	13.1
1963	8.7	17.2	45.1	2.24	.75	3.89	69.5	9.1	12.6	15.8	13.8
1962	8.1	13.0	38.6	1.82	.70	3.33	71.5	7.9	11.7	14.7	12.6
1961	7.0	12.5	35.3	1.68	.60	3.05	73.6	6.2	11.5	14.9	12.5
1960	7.0	6.3	27.1	1.15	.60	2.35	74.9	6.1	9.3	11.0	9.2
1959	5.8	11.8	31.0	1.53	.50	2.68	71.6	8.6	10.7	15.8	12.7

BALANCE SHEET SUMMARY (millions of dollars excepting per share data)

Dec. 31	Working capital $	Non-current receivables $	Invest-ments $	Investments reserved for expansion $	Net fixed assets $	Deferred charge $	Long term debt $	Accrued past service pension cost $	Deferred income taxes $	Deferred earnings on advance sales $	Share-holders' equity $	Share-holders' equity per share $	Number of shares issued (000)	Number of share-holders
1969	48.6	.7	30.5		261.4		47.0	20.9	46.4		226.9	19.55	11608	16362
1968	70.4	.7	30.4	10.0	239.0	9.9	47.1	20.7	64.7		227.9	19.63	11608	14796
1967	61.4	1.6	30.4	10.0	235.7	6.5	39.7	17.8	68.4		219.7	18.93	11608	13936
1966	56.7	1.6	31.8	10.0	212.8	6.8	19.0	18.4	63.2		219.1	18.88	11606	13284
1965	56.7		30.3	15.0	196.0		23.9	11.8	56.7		205.6	17.73	11596	13912
1964	54.8		30.3		186.7		26.9		47.6		197.3	17.02	11594	8744
1963	60.8		2.9	15.0	164.0		28.6		34.9	.4	178.8	15.45	11574	7863
1962	47.6		6.5	9.0	146.2	.5	30.4		29.4	.5	149.5	12.92	11572	7815
1961	50.6		6.5	10.0	125.8	.5	31.7		24.7	.3	136.7	11.81	11572	7537
1960	50.9		6.4		120.0	.6	32.4		21.3	.3	123.9	10.73	11542	7176
1959	44.5		6.5	14.0	104.3	.6	33.8		18.3	.3	117.5	10.19	11532	6394

Statistics on shares are adjusted for share subdivision in May 1966.
During 1969 the methods of accounting for depreciation and accrued past service pension cost were changed—see notes 2 and 6 on page **16**.

Average invested capital is the average of shareholders' equity plus long term debt less unamortized debenture expense at the beginning and end of the year.

THE ALGOMA STEEL CORPORATION, LIMITED

SALES OFFICES	Sault Ste. Marie, Ontario Saint John, New Brunswick Montreal, Quebec Toronto, Ontario Hamilton, Ontario Windsor, Ontario Winnipeg, Manitoba Vancouver, British Columbia
PRODUCTS	Algoma Sinter Coke Coal Chemicals Pig Iron Ingots Blooms, Billets and Slabs Heavy and Light Rails Rail Fastenings Heavy Structurals Parallel Flange Beams Light Structurals Carbon Merchant Bars Reinforcing Bars Tube Rounds Grinding Balls and Rods Sheared Plate Universal Plate Hot Rolled Sheet and Strip Cold Rolled Sheet and Strip Electrical Sheet and Strip Skelp